



The Doldrums of Summer

The stock market is a deceptive vehicle that would love to separate each of us from our money. It is our job to stay level-headed no matter how the markets try to deceive us. Many people look at the stock market as a theater for entertainment and lose site of their primary objective of getting solid returns on their investments as consistently as possible.

Summer usually offers an interesting time period to ponder the patterns of the markets. August is often a very slow month with minimum volumes. However, that does not always equate to low returns. August of 2006 provided returns of 2.6% for the S&P 500 index. This is an excellent month by any standard. We have to

remember that "successful investing" can truly be boring at times. Boredom is a good thing as it relates to the stock markets. The mistake is to get bored enough just to make a move for the purposes of creating "action" during slower periods. If we are in quality investments, the smartest thing is often to hold the course and wait for the market to do its thing.

As value investors we will not stay blindly invested over the very long-term. We will constantly seek out "value" investments, making minor shifts as we go along, combined with occasional major changes to our primary asset allocation when warranted.

Lump Sum Versus Annuity Retirement Options

Some corporate employers offer employees a Defined Benefit Plan which culminates in a payout of either a Lump Sum or an Annuity upon retirement. An annuity is a fixed monthly payment for the duration of your life. If you have a choice, should you take the lump sum or the annuity?

The Annuity Option

If a person's retirement plan is inflexible (as is often the case with government employees and teachers) the participant may be forced to take the annuity option.

An advantage of receiving an annuity may be for someone to protect themselves from their temptation to squander a large sum of money which is intended to last them the rest of their life. A married person may have the option to elect a joint and survivor annuity where they receive a lower monthly payment but their spouse will continue to receive a portion of their retirement income.

The main disadvantage of an annuity lies in the potential reduction of spending power over time. If we have inflation of 4%, the purchasing power of the fixed monthly payment would be halved in

18 years. Since normal life expectancies are now 85 and above, having assets that are in some way indexed to inflation is a most important consideration. Another disadvantage of the annuity is that there is no principal sum to be inherited by the next generation. This is forfeited in lieu of the monthly payments.

The Lump Sum Option

A person who decides to receive their retirement as a Lump Sum receives the value of their account in one single payment to invest as they see fit. This can be rolled over from their Defined Benefit Plan to another tax-deferred account such as an IRA without triggering a taxable event. This lump sum is then theirs to do with as they choose. With the lump sum they are able to make all of their own investment decisions.

Before making a final decision on Lump Sum versus Annuity, a person should always consult their financial advisor and their tax advisor to have full awareness of the most recent laws affecting their decision.

Quotes

About Life

There is no such thing as a problem without a gift for you in its hands.

—Richard Bach

Good judgment comes from experience. Experience comes from bad judgment.

—Will Rogers

About Finance

Inflation is not all bad. After all, it has allowed every American to live in a more expensive neighborhood without moving.

—Alan Cranston

There is no dignity quite so impressive, and no independence quite so important, as living within your means.

—Calvin Coolidge

About Investing

You try to be greedy when others are fearful and fearful when others are greedy.

—Warren Buffet

Buy straw hats in the wintertime. Summer will surely come.

—Bernard Baruch

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